



The New Effective Model of Financing Without Providing Collateral and Free of Risk for Developing Small and Medium Enterprises

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Abstract: The practice of financing management is a critical component of the organization's safety climate. Mudharabah financing is known to be suitable for small business financing, but requires collateral as one of the financing conditions to the sharia bank which is always a barrier for Small and Medium Enterprises in obtaining financing. The alternative model built to be used in financing this small business combines Mudharabah and Musyarakah concepts, and is called The Rotating Multiple Wheels Management Model. This model involves small and medium-sized businesses, but does not require collateral for avoiding all risks of Mudharabah Financing, namely: (i) Side Stream Risk, (ii) Neglect Risk, (iii) Manipulation Risk. This model can be used by banks in assisting the development of financing to Small and Medium Enterprises by minimizing risk to the minimum level, while also facilitating Small and Medium Enterprises in obtaining bank financing without collateral. However, this study does not examine the morale of parties involved in the financing process to small and medium-sized businesses so that the failure of financing due to moral hazard is not included in this model.

Keywords: Islamic Bank, Small and Medium Enterprises, Mudharabah, Musyarakah

I. INTRODUCTION

Mudharabah financing is a joint venture between Islamic bank as a shahibul maal with another party as a mudharib where Islamic bank shares all money capital (100%) whereas another party do not share money capital. In this case Islamic bank as shahibul maal suffers all of loss risk of money capital. Whereas, another party as a mudharib just suffers loss risk of time and skills (Karim, 2006).

Based on definition above, Mudharabah financing is very suitable for Small Business because many of small business entrepreneurs do not have much money capital; meanwhile in Mudharabah financing Islamic bank party gives 100% money capital. So the Small Business Entrepreneur is very necessary for this

kind financing. But many Islamic banks do not want to give Mudharabah financing because Mudharabah financing has high risk impact. Of course, this is the antagonism situation. This is the big real problem in Islamic banking financing. So, to solve that problem needed the best model financing that give win-win solution for Islamic banking party and small business party. But, how is the best conceptual frame work of financing the small business under the Mudharabah ? This is the very important thing to answer.

Islam clearly support the Mudharabah financing, transfer funds as specified in the Al-Hadith.

“Three things in it there is blessing, namely deferred sale, Mudharabah, and mix wheat with flour for household purposes is not for sale” (HR. Ibn Majah no.2280, Kitab At-Tijarah).

Based on the hadits, it is clear that the Prophet Muhammad (SAW) states specifically that the Mudharabah financing is financing that contains benefits. Of course, if sharing scheme implemented properly then it brings many benefits to all parties. Claims to the implementation of Mudharabah financing to become compulsory and Mudharabah financing should take precedence in the Islamic banking system.

However, Yumanita (2005) reported that there was a highly significant difference between the amounts of equity financing with debt financing extended by Islamic banks in certain countries. Mudharabah financing includes equity financing and debt financing Musharakah while covering Murabahah, Salam, Istiqlah, Ijarah, Rahn and others. Report of Bank Indonesia (1999-2006), for example, shows Mudharabah financing represented 14.6%, while Murabahah representing 52.4% of total amount issued. Report of Bank Negara Malaysia (2007) also showed Mudharabah financing represents 0.09% while representing 21.0% Murabahah. Report of the Central Bank of Sudan (2003) showed Mudharabah financing represents only 6.9%, Musharakah representing 23.4%, representing 36.7% of Murabaha and other represents 33.0% of total amount issued.

Apart from national aggregate data that showed a lack of funds disbursed by the bank in the form of Mudharabah financing, data from several Islamic banks also showed a similar pattern. In addition to the example of Bank Syariah Mandiri and BNI Syariah, this statement is supported by the data reports Bank Syariah Mandiri (BSM), Bank Muamalat Indonesia (BMI), Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia (BMM) as shown in Table 1.

Table 1
Proportion of Mudharabah and Murabahah Financing in Indonesia and Malaysia

<i>Thn</i>	<i>BSM</i>		<i>BMI</i>		<i>BIMB</i>		<i>BMM</i>	
	<i>Mudha- rabah (%)</i>	<i>Muraba- bah (%)</i>	<i>Mudha- rabah (%)</i>	<i>Muraba- bah (%)</i>	<i>Mudha- rabah (%)</i>	<i>Muraba- bah (%)</i>	<i>Mudha- rabah (%)</i>	<i>Muraba- bah (%)</i>
1999	0	15	28	15	0.53	24.7		
2000	0.25	49	38	29	0.28	27.8		
2001	0.42	99	23	40	0.34	23.9		
2002	0.13	57.1	24	48	0.66	24.7		
2003	1.60	47.7	24	40	0.52	22.3	0.07	23.9
2004	43	59.2	31	36	0.43	19.8	0.05	20.8
2005	59	47	33	39	0.21	18.6	0.03	21.8
2006	12	44	28	37	0.21	13.8	0.01	20
2007	22	46	30	40	0.08	21	0.00	20

*Sources:*BSM, BMI, BIMB dan BMM (2008)

Nevertheless, the data in 2005 showed a greater increased in Mudharabah financing in Indonesia. This is true in the early stages Mudharabah financing introduced whereby Bank Indonesia has sanctioned Islamic banks to channel Mudharabah financing to SMEs to promote Islamic financial system. However, the owner of this resolution is not passed because the bank has suffered high losses due to Mudharabah financing. This resulted in Bank Syariah Mandiri reducing Mudharabah financing so that it decreased low after 2005.

In the case of Malaysia, BIMB data in Table 1 shows Mudharabah financing also following the same trend. The financial statements from 1999 to 2007 show that the amount of mudharabah financing is also much smaller than the amount of murabahah financing (Laldin 2008). The same applies to the case of Bank Muamalat Malaysia. We can conclude here that Mudharabah financing is generally much smaller than Murabaha financing in both Indonesia and Malaysia.

One possible lack of funding for Mudharabah financing considered by banks will expose them to greater risk. However, Mudharabah financing can provide a more tempting advantage to the bank. For example, in 2002, Bukopin Syariah branch offices reported a profit of Rp 125,670,586.00 for Mudharabah financing and murabaha profit of only Rp 78,437,500.00 (BBS, 2003).

Among the factors contributing to the provision of identifiable Islamic financing are like those of conventional financing proposed by Walker and Pukhuanthong (2007), internal and external factors. Ghafur (2004) stated that internal factors related to the financial position of sharia banks are visible from financial ratios, such as Capital Adequacy Ratio (CAR), 'Asset Recognition Ratio' (AUR), 'Loan to Assets Ratio (LAR),' Rate Ratio Returns (RLR), 'Loan to Deposit Ratio (LDR),' Non-Performance Finance '(NPF). External factors including banks from the external environment can indirectly affect the operations of Islamic banks such as economic and political factors.

This is supported by Ariffin (2007) which states that the scheme Mudharabah financing is the least skim applied by the bank, although it is preferred by business operators. At the IRS, the need to finance for SMEs is not disputed because so desperately need capital to continue to grow and many are facing collateral constraints. In general, SMEs have difficulty in obtaining capital financing (Pissarides 1999) corresponding to various shortcomings that exist in SMEs, such as the lack of experts in business management, lack of support systems and company owners the ability to manage a company with fewer employees (Mok & Wafa 2007).

Since Bank Muamalat Indonesia was established as the first Islamic bank in Indonesia in 1992, so far Mudharabah financing is still less successful. This is due to the Islamic banks are not keen to give Mudharabah financing compared with other financings. The Mudharabah financing model practiced in Indonesia see in Figure 1:

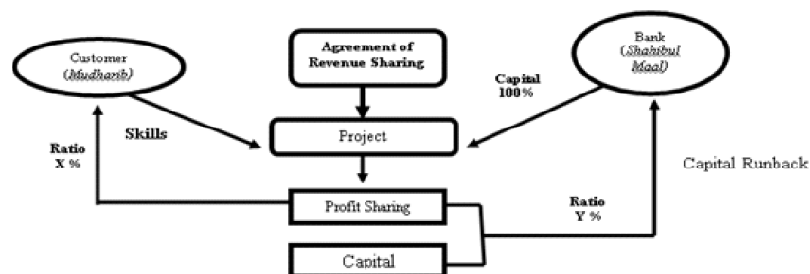


Figure 1: Mudhrabah Financing Model

Resource: Nabhan, 2008

Mudharabah financing model has been criticized aspects of financing risks incurred by the bank (Azmi, 2006; Thawil 2007). According to Karim (2006) Mudharabah financing model adopted has disadvantages in terms of financing risks such as the use of funds that are not compatible with the contract, errors and willful negligence by concealment of profits by Mudharib. Perhaps this was the reason for the lack of Mudharabah financing at this point.

Ariffin (2007) also confirms that the risks faced by the bank is the main reason why Mudharabah financing less applicable. The banks as intermediaries' money savers need to keep the money entrusted by channeling capital financing. Rizal (2007) supports this statement by stating Mudharabah financing schemes risky because the bank did not participate in the management of projects and Mudharabah financing is more based on trust the bank to the Interest Rate Swap (IRS). Agency problems often associated with asymmetric information, and error concealment advantage inflicted by mudharib.

According to Antonio (2007), based on the loan's original goal of suitability and Mudharabah financing is suitable for financing production activities or products while murabaha financing according to financing consumption. This is because there Mudharabah financing schemes in setting funding provided only to the activities of production (Al-Ali, 2010) and conceptually, Mudharabah financing coincides with the IKS because most of the activities related to IKS products.

In addition, the method of sharing profits and losses can create fraudulent behavior with the intention of which customers apply for funding for projects that have the potential to face high losses with the intention losses will be borne by the bank. Instead, applicants tend to apply for conventional financing, non-profit-loss sharing method, for projects that could earn high profits. Ahmad (2006) claimed that this would be detrimental to the bank and the bank is 'garbage bracket'. Ghafar (2006) also see this as a moral hazard risks associated while Mainelli (2002) viewed from the standpoint of operational risk.

So, what's the special of Mudharabah financing? In addition to compliance with the tradition of the Prophet, according to Perwataatmaja (2006), Mudharabah contains elements of helping, togetherness and greater transparency in the face of uncertainty. Mudharabah financing that involves gains and losses are shared through the provision of pre-agreed sharing ratio allows the uncertainty of investment returns solved together so that justice for all parties, namely the mudharib and shahibul maal.

Moreover, as the facts support, Mudharabah financing visits compatible with the bank's main functions, namely bank function as a provider of capital, not as a business executive like in musharakah (Rahman, 2006). Mudharabah financing schemes, banks act as providers of capital (shahibul maal) without involvement in business management exercised by the capital (mudharib). Therefore, in theory can be summarized Mudharabah financing schemes should be prioritized as it is compatible with the functioning of the bank. However, in practice, banks found it difficult to provide loans to mudharib without the element of trust that is full or without sufficient collateral (Ghafar 2006).

The lack of mudharabah financing offered by sharia banks, and the application of demand based on this SME lending position policy has been the basis of this research motivation. Mudharabah financing model is very little practiced and therefore there are very few full explanations in writing is obtained from the bank on how this funding. According to Antonio (2007) in Mudharabah financing model that exists so far, the issuing bank's total capital, while the borrower having expertise in business and doing business. No collateral is imposed. Thus, Mudharabah financing model was favorable to the borrower while the bank is

exposed to various risks in the event the borrower to act outside the agreement. Therefore, the main fundamental problems and lack of Mudharabah financing is practiced.

In Indonesia, one more thing that attracts attention is the fatwa on collateral loans (Frank, 2003). Although Mudharabah financing is basically not require collateral, Mudharabah financing in this country require collateral (Nabhan, 2008). Cardinal (2008) sets out the conditions of this collateral is to overcome ketidakamanahan risk borrowers. This is contrary to the basic concept of Mudharabah and how it is practiced in other countries such as Malaysia. According Nabhan (2008) again, how Mudharabah financing or management model in Indonesia is as shown in Figure 2. It is expected that there would be prejudice to each other in controlling the risk of causing Mudharabah financing is still minor compared with other financing (Antonio, 2007).

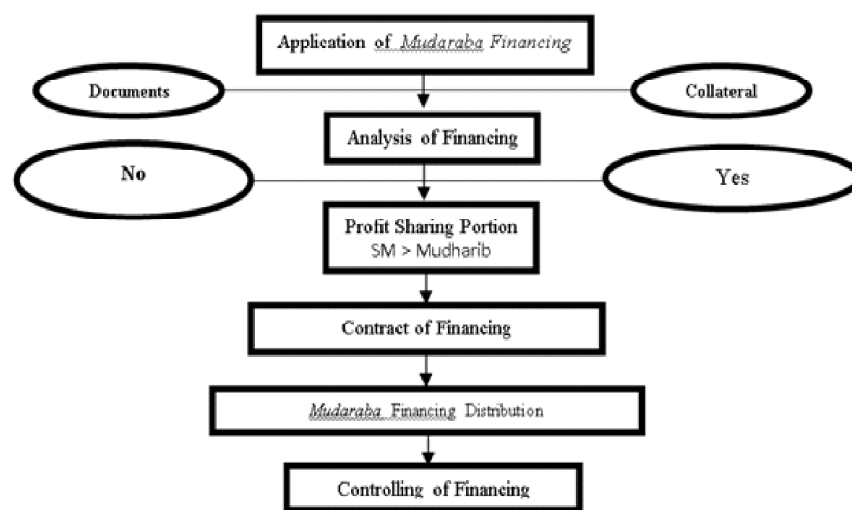


Figure 2: Mudharabah Financing Managemnet Model in Indonesia

Source: Nabhan, 2008.

Based on the figure 2, is available:

- (i) Use of collateral to mitigate the risk of non-return of capital is not in accordance with Shariah Mudharabah loan.
- (ii) This puts applicants in a difficult situation. Mudharabah is similar to murabaha financing in which the applicant is qualified but failed to obtain a loan no collateral Mudharabah. The situation is serious because the majority of SMEs does not have adequate collateral and are not eligible to apply for unsecured loans (SMEDC UGM, 2002).
- (iii) The ratio of profit and loss issues in dispute by both parties wants a higher ratio. This will make one of the parties is not satisfied and to act in ways they should not. For example, if grant of the profit sharing ratio is higher maal shahibul to address the risk of 'side-stream', there might be a tendency for employers to hide profits.

Despite the importance of Mudharabah financing and related issues, was found to be less extensive research that can help towards the establishment of a management system can reduce the risk of occurrence

of Mudharabah financing. Among the more readily available is not Mudharabah financing. In the context of a study conducted on Islamic finance in Indonesia, which is detected by the pioneers of the study (2005), Ghafur (2004) and Ayni (2003).

The existence of issues concerning the role of third parties in the development of Mudharabah financing attracted the attention of researchers and the policy of this study. In this case, Karim (2001) states that the third party is needed in the process of Mudharabah financing in order to give comfort to the bank so keen to give Mudharabah financing to SMEs.

Table 2
The Number of SME's That Have Barrier in Apply Financing to the Bank

<i>No</i>	<i>Explanation</i>	<i>Percentage</i>
1.	SME's without have collateral	26%
2.	SME's with legality problem	23%
3.	SME's with administration problem	23%
4.	SME's with other problem	26%

Source: SMEDC UGM, 2002

Karim (2001) stated in the Oxford study found that the Islamic banks are less interested in providing financing Mudharabah because: i) Source of funds held by banks mostly come from funds within a short time, while the Mudharabah financing is a long period of time ii) Most employers who choose Mudharabah is a businessman who has a high risk business iii) In an effort to obtain financing Mudharabah, entrepreneurs trying to convince the bank that its business has a high profit. Therefore, employers tend to make overly optimistic estimates of business iv) Many entrepreneurs have two bookkeeping (double accounting) where the books were given to the bank is the bookkeeping with low profitability. In this case the concealment of the actual profit.

The issue of the role of third parties in the development of Mudharabah financing is already been submitted by Chapra (1996). In this case, Chapra (1996) states that the third party in the form of surety institutions should be involved in the provision of Mudharabah financing. The guarantor institutions in the application must perform two main philosophies: i) Reduce speculation Islamic bank in the Mudharabah financing offers benefits and risks and uncertainties inherent losses in the loan management. ii) Helping Islamic banks in developing economies through the Small and Medium Enterprises to benefit the people.

Next Chapra (1996) states that the institution is formed by the bank guarantor Islam and became part of the Islamic bank as an institution that is not stuck broker who asked for a prospective candidate mudharib only or obtain bribes from candidates mudharib to provide recommendations to obtain bank financing Mudharabah of Islam. However, if the bank is unable to form a guarantor institution, the institution can be imported from outside the guarantor bank with a grant equal to a certain percentage of the profits the banks of the Mudharabah financing projects or by an agreement in the contract between the bank and the guarantor institution.

Chapra (1996) outlines the following criteria guarantor institutions; i) Islamic banks have developed competence ii) Has committed to managing the real sector iii) Have an attachment with the Islamic bank.

Next Chapra (1996) states that the role of guarantor in Mudharabah financing are: i) Mudharabah financing are evolving every application; ii) Make classification entrepreneurs seeking financing Mudharabah; iii) Verifying the application Mudharabah financing; iv) Limited guidance to mudharib in the following; a. Financing fund management so that its use compatible with the contract. b. Production process c. Practical marketing d. financial management; v) Make a report to the Islamic bank and mudharib on the progress of the business financed through Mudharabah scheme concerned.

To that end, the third party should have a certain percentage of the profits derived from the percentage of the profits of banks and SMEs. The necessity of the involvement of third parties in Mudharabah financing is intended to assist SMEs in obtaining financing Mudharabah which has the characteristics of the uncertainties profit (Siregar, 2002). Furthermore Siregar (2002) states that by using Mudharabah financing through income distribution system, IKS revenue burden is reduced.

Lack of Mudharabah financing compared with other shariah financing, weaknesses in the Mudharabah management model and the lack of comprehensive research on Mudharabah financing are a strong justification for more effective Mudharabah financing research. Based on the discussion and development of Mudharabah financing, research needs to be done to understand why very little Mudharabah financing implemented even if it is an option for SMEs and coincides with the recommendations of the sharia. The determining factor to the success of Mudharabah financing should be identified immediately and if necessary a Mudharabah financing management model involving a third party is introduced.

Meanwhile the objectives of this study are: i) To finding the real Islamic financing concept. ii) To finding the current conceptual framework of Mudharabah financing. iii) To create a new effective model of financing without providing collateral and free of risk to developing Small and Medium Enterprises in Indonesia

The study of How, Karim and Verhoeven (2005), found that Islamic finance is exposed to three main risk, i.e. credit risk (credit risk), the risk rate of return (rate of return risk) and liquidity risk (liquidity risk). How *et al.* (2005) and Maria (2005) states that the credit risk is the risk that occurs due to failure of the recipient of funding to meet its obligations, while the rate of return risk is the risk that occurs due to the low rate of profit given to the keeper of Islamic banks compared to conventional banks. Meanwhile, liquidity risk is the risk that occurs as a result of the bank is not able to fulfill the obligation that falls duration.

Further, the study How, Karim and Verhoeven (2005) found that commercial bank in Malaysia using Islamic financing is exposed to credit risk and liquidity risk is lower but the risk has a higher rate of return compared with conventional commercial bank. Credit risk and liquidity risk low is because Islamic finance in Malaysia more Murabaha financing with an additional level of low profits, therefore many funding recipients able to repay the funds (fund) borrowed. While the high rate of return risk in Islamic financing in Malaysia due for a given level of profitability of Islamic banks is lower than the interest rate offered by conventional banks to disclose the keeper to falling revenues Islamic bank.

Boyd and Nicol (2005) argues that there are other risks in Islamic finance is price risk (price risk), risks of mortgage (fiduciary risk) and risk of misuse of funds (displaced commercial risk). According Boyd and Nicol (2005), the price risk is the risk that occurs as a form of financing Murabaha Islamic financing where the financing for the purchase price set in advance at the time the agreement was signed, by the time the market price is lower than the price in the contract, then the bank will suffer losses while justifying risks to

customers who are not able to pay its debts. While mortgage risk is the risk posed by Rahn financing in which the bank will suffer sufferers when the goods pawned stolen properties and the contract is imperfect

Financing risk is the risk of abuse happens because in Islamic financing Mudharabah financing happens where the Mudharib using financing funds are mismatched with the contract. Next Ariss and Sareddiene (2007) state that the existence of price risk, and the risk of misuse of mortgage financing in Islamic finance to become one of the differences between Islamic finance and conventional finance.

The study of How, Karim and Verhoeven (2005) found that Mudharabah face higher credit risk compared with Murabahah financing. This happens because in all capital Mudharabah financing provided by the bank, by the time the project Mudharabah fails, then the bank to obtain damages. Moreover, How, Karim and Verhoeven (2005) also stated that the Mudharabah high liquidity risk as at the time of depositors' savings immediately demanded money and savings are being invested in Mudharabah financing that fails, then the Islamic bank will have difficulty liquidity.

Ghafar study (2006) found that the risk of changes in Mudharabah financing external factors (exposure risk), compliance risk sharia (Sharia compliance risk), the risk of profit (profit risk), operational risks (operational risk) and risk of mental (moral hazard). Ghafar (2006) states that exposure occurs due the risk of inflation or other adverse effects of financing projects. While Islamic compliance risks occur because of disobedience against Islamic sharia Mudharib manage the project, considering it must seek greater income in order to obtain high profits. Risk advantage occurs because Mudharib hide the actual profit for its own sake. Operational risks occur because of the obstacles in the implementation of projects, such as the Mudharib experiencing pain or the bank experienced a rush. While mental risk occurs due to negligence / willful mistake by Mudharib and adverse selection. Adverse selection is the behavior mudharib requesting funding to Islamic banks for its proposed project has identified potential large losses, the losses so as to divide it using Islamic financing. While for projects identified have great profit potential, it uses conventional financing so as not to have to divide the profits with the banks. This assertion is supported by Antonio (2007). Furthermore, Antonio (2007) argues that there are three main risks in Mudharabah financing, the risk of misuse of funds (streaming side risk), negligence / willful error and concealment of profits.

II. METHOD

In this study used Descriptive Qualitative Analysis based on secondary data from the bank and government that analyzed to get conclusion and contribution.

This research uses secondary data from Islamic bank and Indonesian government. There are 10 banks in Indonesia who practice Islam bank system with practical either not fully use the system (windows system or sharia unit) or the system (full pledge system or bank), namely: Bank Muamalat Indonesia, Bank Syariah Mandiri, Bank Mega Syariah, Bank BRI Syariah, Bank BNI Syariah, Bank Syariah BUKOPIN, Bank BII Syariah, Bank Danamon Syariah, Bank BTN Syariah, Bank CIMB Niaga Syariah. Of the 10 banks that were listed, 5 banks were selected, namely: Bank Muamalat Indonesia, Bank Mega Syariah, Bank Syariah Mandiri, Bank Syariah BUKOPIN, Bank BRI Syariah.

Bank selection is not made at random in any of the five banks selected by the criteria of banks that provide services entirely Islam (full pledge system / bank). These banks represent more than 90% of Islamic banks in Indonesia (BNI, 2009).

III. RESULT

Islamic banking has responsibilities in improving business activity unless do not contrary with Islam Principles. According to Antonio (2001), one of Islamic financing activities is distributing fund to society in order to get profit through doing Islamic Principles. There are five Characteristics of Islamic financing, namely (Antonio,2001) :1. There is no transaction uses interest rate; 2. There are allocation of zakat or sadaqah; 3. There are prohibition in producing services and goods that are contrary with Islamic Principles. There are no gharar and maysir element in transaction; 4. There are Takaful Insurance. In this case, there are several function of Islamic bank, namely (Karim, 2006): i) Increasing utility of money. So that there is no idle money in bank Increasing utility of goods; ii) Increasing money supply; iii) Increasing motivation of entrepreneurship; iv) As economic stabilizer; v) As a mediator to increase Disposable Income; vi) As a tool of international economic relationship.

According to the concept of Islam, risk is a normal thing that must be faced in daily activities. It is caused by the uncertainty that is something that is sunatullah (the law of nature that God has set in the world). The concept of risk attempts to measure the degree of uncertainty of future events (long-term and short-term). Sharia banking faces a relatively different financial risk with conventional banking. Compared to conventional banking, sharia banking has higher risk than conventional banking, because (Muljawan, 2004):

First, because the greater part of investment in Islamic banking are financing that based on Profit and Loss Sharing, so Islamic banking revenue have high variance. Second, Islamic banking have high liquidity risk because the greater parts of their assets are non-liquid assets. Third, Islamic banking have currency risk because they are forbidden to do hedging position. Fourth, Islamic banking have monetary and fiscal policy exchange risk because they give financing to firm.

Nowadays, Mudharabah financing is a parsial frame work, separates from another financing types. There is no frame work which combinate Mudharabah financing and Musyarakah or each others. The conceptual frame work of Mudharabah financing are (Karim, 2006) : 1) Islamic bank as a capital owner (shahibul maal) gives money capital 100% to mudharib. 2) Capital owner or sahibul maal may not involve in business activities of mudharib. 3) Fund organizer or mudharib has to run effort trustily follow rule which has been agreed on both parties. 4) Revenue sharing between shahibul maal and mudharib have to according to ratio / portion which have been agreed on both parties. 5) In the event of loss at the business activities, shahibul maal will account loss of capital 100%, while mudharib will account loss 100% in any form loss of skill, time and energy. But this is not applicable if mudharib proven does not follow the rule agreed on both parties.

According to Antonio (2001), The conceptual frame work above has a high risk, namely: First, side streaming risk That is consumers use fund do not according to contract. Second, neglect risk That is consumers do neglect intentionally. Third, manipulation risk. That is consumers hide a part of profit intentionally. Beside that, according to Ahmad (2006), the Mudharabah financing frame work above has many weaknesses, namely : i) Mudharabah Financing System for the more will make the banks like “Problems Basket”. The entrepreneurs which have high risk project will go to Islamic banks and ask the bank to use Mudharabah System for financing their project. Why? because in the high-risk projects the probability to get the profit is small, but the probability to get the loss is big and this is the high risk. Thus, its very

reasonable for the entrepreneurs to go to Islamic banks and use Mudharabah System for financing the project in order to get share the loss risk with the banks. In the same time, while the entrepreneurs have low risk projects, they will go to conventional bank for financing the project. Why? because in the low risk projects, the probability to get the profit is big so if they go to conventional banks they can get the whole profit without must be shared with the bank. ii) Mudharabah Financing System for further more will make Islamic Bank like “Garbage Basket”. Why? because in Mudharabah Financing System, the Islamic bank will guarantee the loss risk money capital 100%, so the entrepreneur does not always have high capability in getting profit because if getting loss also they must not back again money capital from Islamic bank. Its really a nice place for the the entrepreneur who do not high capability in business because they must not think hard to avoid the risk. In this case, Islamic bank will be a nice place for garbage entrepreneur so its like “Garbage Basket”. Bases on the explanation, its needed to make the new frame work of Mudharabah financing that can be alternative to overcome that problems above and to be the best alternative for small business financing.

In the new effective model of financing to developing of small and medium enterprises used combination concept between Mudharabah and Musyarakah concept. In this case, involve small business and medium business activities. In this case, this alternative conceptual frame work named The Rotating Multiple Wheels Management Model. The mechanism of The Rotating Multiple Wheels Management Model seen in the picture below:

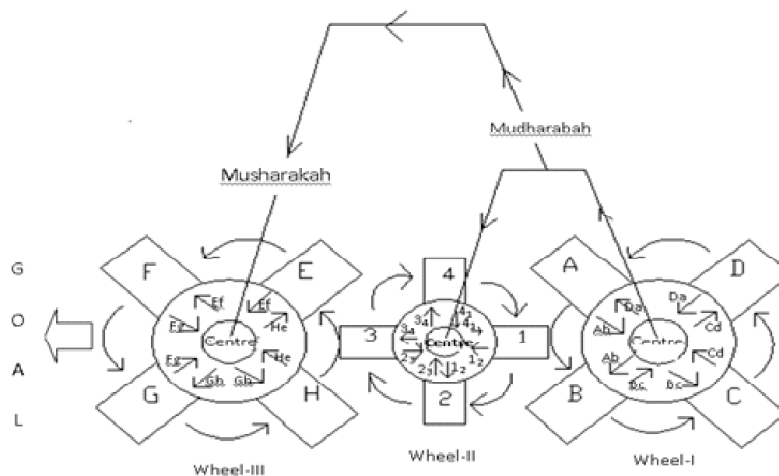


Figure 3: Design of The Rotating Multiple Wheels Management Model

Explanation

In this model, Islamic Bank as a Shahibul Maal gives Financing to Medium Business using Musyarakah contract. In this case, Islamic Bank and Medium Business gives money capital as a sharing capital in the project. Islamic Bank and Medium Business party can involve in project management. In this contract used Profit Sharing concept according to their agreement. Out side of Musyarakah contract, Islamic Bank suggests to Medium Business party to give Mudharabah Financing to Small business party through Islamic Bank as an intermediary party. So, the Medium Business party gives money capital to Small Business party using Mudharabah contract through Islamic Bank as an Intermediary. In this case, Medium Business party

gives also a project to Small Business party to produce raw material product. After that, the raw material product that produced by small business party will be bought by Medium Business party using low price that determinate by Medium Business Party. Then, Small Business party will give the profit of that project to Medium Business party through Islamic Bank according to profit sharing concept in Mudharabah Contract and so on. In this case, that profit will be saved in a special account in Islamic Bank that belongs to Medium Business party. This account is a reserve fund of Medium Business party as a part of profit that produced by Musyarakah project between Islamic Bank and Medium Business party. So, in this case Small Business party through Mudharabah project can help Medium Business party to produce profit in Musyarakah project. In the other side, Medium Business party also produce profit it self in Musyarakah project that involve Islamic Bank party and Medium Business it self.

IV. DISCUSSION AND CONCLUSION

There is no doubt that the results of this study provide a positive implication on development grants Mudharabah financing to SMEs in Indonesia. The following is a discussion of the implications of this research. The Rotating Multiple Wheel Management Model has many beneficial for developing Small and Medium Enterprises. In terms of practical implications, the findings are no doubt can be a guide and reference for further study for the success of Islamic finance in the future, especially Mudharabah financing based on the concept of profit sharing between banks and SMEs. This model can help Small and Medium Enterprises in getting of financing without providing collateral. In this model the bank can give financing without having return risk due to the risk will be covered by the three parties are Bank, Small Enterprises and Medium Enterprises.

The Rotating Multiple Wheels Management Model can avoid all of Mudharabah Financing risk, namely i). Side Streaming Risk the Rotating Multiple Wheels Management Model can avoid Side Streaming Risk because in this model, The Medium Business party as a Giver and Buyer. Medium Business party as a Giver because give a project to Small Business party to produce raw material product that needed by Medium Business activities in doing Musyarakah project. And then, Medium Business party as a Buyer because buy the raw material that produced by Small Business party using low price determinate by Medium Business party. It means, Medium Business party can control the kind Business and Medium of Small Business activities according to Mudharabah contract between Small Business party. So, the Side Streaming Risk can be avoided. ii). Neglect Risk the Rotating Multiple Wheels Management Model can avoid Neglect Risk because in this model, The Medium Business party as a fix Giver and Buyer. It means their position as a giver of financing and marketing to Small Business party. The other side, Small Business position is only as Receiver and Seller. This is the Real Weak Position because The Receiver will depend on The Giver and The Seller will depends on The Buyer. As we know that the classical problem of Small Business is financing and marketing. So, in this case the entrepreneur of Small Business will work honesty and do not be neglect because they are afraid to loos fix financing and marketing of their product. iii). Manipulation Risk the Rotating Multiple Wheels Management Model can avoid Manipulation Risk because in this model the Medium Business party and Small Business party will know together the amount of profit in their Mudharabah Project. Medium Business party as a financing giver and ordering of product. It means they know about how much the money capital that needed by Small Business party. And this is an “Expenses” of Small Business party. After that Medium Business will buy all products produced by the Small Business using low price that determinate by Medium Business. And this is a “Revenue” of Small Business party. So,

Medium Business party can account how much profit got by Small Business party through formula Profit is Revenue to Expenses (Profit = Revenue – Expenses). So, using The Rotating Multiple Wheels Management Model can avoid Manipulation Risk of Profit.

In conclusion: i). Mudharabah Financing is suitable for financing of Small Business; ii). There are many weaknesses of Mudharabah financing; iii). The current frame work of Mudharabah financing has high risk for Islamic bank; iv). The Rotating Multiple Wheels Management Model can avoid all risk of Mudharabah financing.

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